

Do hot hands persist in the hedge fund industry?

(Note: This is a project offered last year. Needs confirmation for this year)

In this study you will identify hedge fund managers who have superior abilities by examining the historical returns on managed funds. In addition to historical return data on the managed funds you will have information about the strategies employed by the managers (self classification). As a first step you will examine the relative importance of the different hedge fund strategies to a particular manager using return based style analysis. Next, you will construct a performance measure for evaluating whether the manager has superior abilities. Finally you will examine whether the managers you identify as having superior talent using historical information continue to have superior talent, i.e., hot hands persist and if so for how long. This study will complement similar studies in the literature that examine the performance of mutual fund managers.

HFR Asset Management will provide you with the data required for this study. You may have to sign an agreement for accessing some of the data.